Manitoba

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

1985

ANNUAL REPORT

Manitoba

Education

Teachers' Retirement
Allowances Fund Board

115 — 1200 Portage Avenue
Winnipeg, Manitoba, CANADA
R3G 0T5

(204) 945-6199

26th June, 1986,

The Honourable Jerry Storie,
Minister of Education,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Mister Minister:

In accordance with subsection 45(3) of The Teachers' Pensions Act, we are pleased to report on our administration of the Teachers' Retirement Allowances Fund for the year ended December 31, 1985. Appended to and forming part of this report are the following:

1. *Statement of "Comparative Statistics" of Significant aspects of the Fund covering the period from inception in 1925 to the end of 1985.*

2. *Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1985, as required by Clause 45(3)(a) of the Act.*

3. *Financial Statements in respect of the year ended December 31, 1985, as follows:*

Exhibit A - Balance sheet as at December 31, 1985

Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1985

Schedule 1 - Summary of Investments as at December 31, 1985

Schedule 2 - Summary of Investment Income for the year ended December 31, 1985

Notes to the Financial Statements for the year ended December 31, 1985.

INVESTMENTS

Under the Act, investments are made as directed by the Investment Committee, comprised of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 6 formal meetings during 1985 and the results of its decisions are portrayed in the following paragraphs. Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing fixed income securities reduced by approximately 3% to 56.7%, offset by approximately equal increases in each of short term and direct oil and gas investments.

During 1985, invested assets increased by over $53,000,000. This amount along with over $18,000,000. of funds received from securities sold or matured was invested as follows:

	% of Total	Cost (thousand $)	Average Yield %
Bonds - Goverment of Canada	13.9	$ 9,956,	11.81
- Province of Manitoba	4.2	2,985,	11.59
- Canadian Corporations	13.6	9,728,	11.74
Total Bonds	31.7	22,669,	11.75
Mortgages - Insured, N.H.A.	13.9	9,903,	12.20
- Uninsured	1.1	800,	11.90
Total Mortgages	15.0	10,703,	12.18
Total Fixed Income	46.7	33,372,	11.89
Equity Investments			
Real Estate	10.4	7,436,	
Direct Natural Resources	16.1	11,491,	
Venture Capital	4.2	2,999,	
Total Equity	30.7	21,926,	
Total Longer Term Investment	77.4	$55,298,	
Short Term Investment	22.6	16,150,	
Total New Investment	100.0	$71,448,	

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $22,000,000. of unfunded commitments were in place at the end of the year, as follows:

	Amount (thousand $)	Average Yield
Bonds, Cadillac Fairview (Polo Park)	$ 1,900,	12.72%
Mortgages - Insured, N.H.A.	4,662,	11.79%
- Uninsured	3,450,	11.51%
Real Estate Equity	3,413,	
Direct Natural Resources	5,887,	
Venture Capital	2,698,	
Total Commitments	$ 22,010,	

The rate of return on average net assets of the Fund increased in 1985 to 10.85% from 8.86% in the preceding year. In the 1984 financial statements, the carried value of the Fund's investment in Canadian Commercial Bank was substantially written down as a result of actions taken by the bank in early 1985. Later events in the year have caused us to acknowledge that there will be little or no recovery on this investment and to write it down to a nominal value. Had these events not occurred, the 1985 rate of return would have been approximately 11.40% (1984 - 10.85%).

PENSIONS

During the year there was a net increase of 187 in the number of retirement income and other monthly benefits being paid. Following is a summary of persons receiving different types of retirement income benefits at December 31, 1985:

Regular service pensions -	
to retired teachers	3,108
to dependants or estates of deceased retired teachers	118
Disability pensions -	
to retired disabled teachers	111
to dependants or estates of deceased retired disabled teachers	7

Death benefits -	
to surviving spouses or children of deceased teachers	*48*
Special annuities -	
to former teachers of retirement age not entitled to regular pensions	*150*
	3,542

ACTUARIAL VALUATION

As required by the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1984, disclosed an actuarial surplus of $37,677,206. as compared to an unfunded liability at January 1, 1981 of $19,506,225. Therefore, the Fund was in a financial position to pay its share of the cost of all benefits to present members that were promised under the Act at that time.

LEGISLATIVE CHANGES

In our report last year it was noted that amendments that had been made in 1983 to The Pension Benefits Act would require the alteration of certain provisions of the Teachers' Pensions Act. At the 1985 session of the Legislature, amendments were made to the Act to this end to the following general effect:

1. *Persons who are party to a common law relationship with a plan member will have the same rights under the plan as a "legal" spouse.*

2. *Retired members who return to teach after being in receipt of a pension, or those who continue to teach after being automatically eligible for pension at age 65, may elect to accumulate pensionable service during such further periods. In such instances, the pension normally payable during the period of further service would be suspended until final retirement and, at that time, would be reinstated and supplemented by the additional pension earned during the period of further employment as a teacher.*

3. *Members who are married (or party to a common law relationship) at retirement are required to select a form of pension payment that provides on death for the survivor to receive 2/3 of the pension for his or her lifetime. Other optional forms of payment may be selected only if both spouses agree.*

4. *Regardless of agreements to the contrary, on marriage break-up one half of a member's pension value accumulated during a period of marriage, or common law relationship, is to be allocated to the former spouse, and the benefit normally payable to the member on eventual retirement will be appropriately reduced with respect to benefits so allocated.*

5. *The benefit payable on the death of a member with respect to service accumulated after 1984 will be the present value of the deferred pension to which the member would have been entitled if retirement had occurred on the date of death and, if paid to a spouse or children, must be in the form of an annuity rather than a lump sum.*

6. *On termination of active plan membership after 1984 with 5 or more years of service, a member's contributions with respect to post-1984 service may not be refunded. Instead, a pension with respect to such service would be payable at any time after age 55 if total service is at least 10 years, or at age 65 if total service is less than 10 years.*

7. *When a pension, death benefit, or benefit to a former spouse on marriage break-up is payable with respect to service accumulated after 1984, any excess of the member's contribution account, including interest, over 50% of the commuted value of the related benefit is to be available to the member, survivor, or former spouse as a refund or additional annuity.*

8. *Provision has been made for interest to be paid on refunds of contributions made with respect to service after 1983. The rate to be paid requires approval of the Superintendent of Pensions and was set at 9.25% for 1984 and 8.75% for 1985.*

9. *As arrangements must be made for the commuted value of a spouse's share of a benefit on marriage break-up to be separated from that of a member and transferred to a financial institution of the spouse's choice, provision has been made in the legislation for a "money purchase account" within the fund as an alternate choice or, at least, a temporary repository until a choice is made.*

10. The Pension Benefits legislation requires that "part-time employees" who earn more than 1/4 of the yearly maximum pensionable earnings under the Canada Pension Plan for 2 consecutive years contribute thereafter to the pension plan. The plan has always provided for compulsory membership for part-time teachers; however, participation by substitutes has been voluntary. The Act now makes such participation compulsory for those who meet the test referred to above.

11. The Pension Benefits Act also requires that every plan provide a "normal retirement age" on which a member will be entitled to a full earned pension, payable immediately, if he or she retires at that age, regardless of length of service. For this plan, the age has been set at the latest possible for registration under the Income Tax Act (Canada) i.e. 70 years 11 months.

12. As many of these changes may require costly actuarial calculations to be made for some individuals, The Pension Benefits Act permits such costs to be passed on to the applicants. A provision has been made in The Teachers' Pensions Act for the Board to assess appropriate fees in such circumstances.

As a result of discussions between representatives of The Manitoba Teachers' Society and government, further amendments were made to provide the following benefits:

1. Effective in July, 1985, members who retire, or who have retired between age 55 and 60 will receive pensions that are not reduced for age. (Previously, such pensions were reduced by 1/8 of 1% for each month the retiring teacher was under the age of 60).

2. Also effective July, 1985, pension calculations for members with part-time service in the salary averaging period used in the pension calculation will use an annualized salary, resulting in an equitable pension for a career part-time teacher vis a vis a full time teacher.

3. Members are now able to acquire pensionable service credit for periods of educational leave by payment of both the employee and employer actuarial cost of adding such service to the member's record. If the member applies for this benefit within 18 months of returning to teach after the leave, the "cost" is deemed to be 2 X the regular contributions required on salaries obtained on returning to teach after the leave.

4. The 3 Manitoba Teachers' Society nominee members of The Teachers' Retirement Allowances Fund Board are no longer required to be teachers.

5. The option to convert pre-1980 service to the 5 year average salary pension formula has been extended to include a small group who were over the age of 65 at the cut-off date of June 30, 1980 but who had not actually retired at that date.

6. The provision in the Act for the government to pay to the Fund any deficiency in the rate of return earned on its invested assets below that rate assumed by the actuary in each triennial valuation to be expected in the future, plus 1%, has been repealed.

7. The sections of the Act providing for portability arrangements with other pension plans were modified to broaden the types of such arrangements that the Board may consider and, subject to approval by order in council, to permit agreements to be made with private sector plans.

The Actuary estimated that the present value of the costs associated with the abovenoted amendments that are chargeable to the Fund would be offset by the surplus disclosed at the January 1, 1984 actuarial appraisal of the Fund.

BOARD MEMBERSHIP

We reported last year that Mr. Jake O'Rourke passed away on April 22, 1985. Mr. Ray Whiteway was subsequently appointed to serve the balance of Mr.O'Rourke's term of appointment and Mr. George Strang was appointed to

replace Mr. Kenneth Valainis whose term of appointment expired on June 30, 1985. We would record our appreciation for the contribution that both Mr. Valainis and the late Mr. O'Rourke made to the administration of the Fund during the time they served as members of the Board.

Respectfully submitted:

THE TEACHERS' RETIREMENT ALLOWANCES FUND BOARD,

BY James G. Oborne, Chairman,

Members:

(2) George Eakin
William E. Lavery, Vice Chairman
(1) David Lerner
(1) Murray Smith
(1) George Strang
(2) Ray Whiteway

(1) Nominated by The Manitoba Teachers' Society
(2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

COMPARATIVE STATISTICS

1925 - 1985

Year Ended 30th June	Net Assets	Income From Investments			CONTRIBUTIONS			Admin. Expenses	Refunds	Pensions			
			Approx. Rate of Return	Number of Teachers Contributing	Teachers	Province of Manitoba	School Districts			Cost	Being paid at end of period	Added during period	Deleted during period
	Thousand $	Thousand $			Thousand $	Thousand $	Thousand $	Thousand $	Thousand $	Thousand $			
1925 to 1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949 to 1963	23,225,	5,548	3.25-4.70	7,750	12,422,	3,830,	3,617,	258,	2,630,	5,500,	781	958	286
1964	25,316,	1,144,	4.85	8,700	2,247,	256,	527,	44,	531,	1,509,	895	148	34
1965	28,084	1,281,	5.00	9,000	3,137,	201,	539,	40,	610,	1,750,	960	101	36
1966	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended 31 Dec. 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended 31st Dec.													
1971	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981	222,755,	22,877,	14.02	12,805	25,985,	12,617,	-	404,	2,191,	20,867,	3,007	143	71
1982	272,360,	27,991,	11.96	12,907	26,293,	13,912,	-	493,	2,210,	23,054,	3,117	194	84
1983	316,200,	29,139,	10.45	12,915	27,557,	15,183,	-	549,	2,027,	25,519,	3,239	197	75
1984	360,060,	28,579,	8.86	13,111	29,580,	16,453,	-	660,	1,980,	28,522,	3,355	213	97
1985	414,458	39,549	10.85	13,287	31,214,	18,184,	-	709,	1,914,	32,092,	3,542	260	73

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A and B and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.,
Provincial Auditor.

June 23, 1986,
Winnipeg, Manitoba.

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1985
(with 1984 figures for comparison)

A S S E T S

	1985	1984
Investments, Schedule 1	$ 405,778,345	$ 352,249,190
Unamortized net adjustment to book value of securities sold before maturity	124,722	155,600
Accrued interest on investments	4,803,358	4,872,660
Investment income receivable	989,668	481,749
Balance of teacher and school division contributions owing by school divisions	2,373,570	2,414,587
Computer equipment, Note 1(F) at cost, less accumulated amortization: 1985 - $25,002 (1984-$10,666)	107,767	95,888
Cash on hand and in bank (book overdraft)	280,710	(13,420)
	$ 414,458,140	$ 360,256,254

L I A B I L I T I E S

Balance of Province of Manitoba account	$ (87,000)	$ (115,472)
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	379,143,556	329,957,638
Pension indexing adjustments	33,576,226	28,933,736
Money Purchase Account, Note 3	120,989	--
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,152,036	1,008,717
Manitoba Association of School Trustees	113,100	94,187
	414,105,907	359,994,278
Reserve for Fund's share of employees' pension benefits, Note 1(E)	439,233	377,448
	$ 414,458,140	$ 360,256,254

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1985
(with 1984 figures for comparison)

	1985						1984
	Reserve for Teachers' Share of Benefits		Money Purchase Account	Reserve for Employers' Share of Benefits			
	Basic	Pension Indexing Adjustments		Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
Additions:							
Contributions:							
Teachers	$ 26,559,275	$ 4,654,538	$ —	$ —	$ —	$ 31,213,813	$ 29,580,058
Province of Manitoba:							
Share of benefits charged	16,436,923	—	—	—	—	16,436,923	14,705,313
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	—	—	—	—	1,613,300	1,613,300
Prior rural service of certain Winnipeg teachers	133,351	—	—	—	—	133,351	134,780
Manitoba Teachers' Society	—	—	—	67,095	—	67,095	75,384
Manitoba Association of School Trustees	—	—	—	—	8,000	8,000	7,711
Other - Transfers under reciprocal agreements	909,930	—	—	—	—	909,930	522,441
Total contributions	45,652,779	4,654,538	—	67,095	8,000	50,382,412	46,638,987
Investment Income, Schedule 2, Note 1	35,605,424	3,769,429	10,014	110,060	10,913	39,505,840	28,697,174
Total additions	81,258,203	8,423,967	10,014	177,155	18,913	89,888,252	75,336,161
Deductions:							
Pensions paid	28,276,688	3,781,477	—	33,836	—	32,092,001	28,522,290
Contributions refunded	1,914,247	—	—	—	—	1,914,247	1,980,111
Transfers under reciprocal agreements	1,061,417	—	—	—	—	1,061,417	218,863
Administrative expenses	708,958	—	—	—	—	708,958	659,868
Total deductions	31,961,310	3,781,477	—	33,836	—	35,776,623	31,381,132
Transfer of Spousal Interests	(110,975)	—	110,975	—	—	—	—
Net increase for year	49,185,918	4,642,490	120,989	143,319	18,913	54,111,629	43,955,029
Balance at beginning of year, before restatement	329,761,020	28,933,736	—	1,008,717	94,187	359,797,660	315,997,769
Adjustment prior year Note 2	196,618	—	—	—	—	196,618	41,480
Balance at beginning of year, restated	329,957,638	28,933,736	—	1,008,717	94,187	359,994,278	316,039,249
Balance at end of year, Exhibit A	$ 379,143,556	$ 33,576,226	$ 120,989	$ 1,152,036	$ 113,100	$ 414,105,907	$ 359,994,278

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1985

	Par Value	Book Value
Fixed income longer term investments:		
Bonds and debentures issued by, or guaranteed by, the following:		
Canada	$ 33,043,750	$ 27,972,559
Province of Alberta	165,000	164,768
Province of British Columbia	324,000	321,960
Province of Manitoba	23,823,000	23,789,869
Province of New Brunswick	965,000	962,006
Province of Newfoundland	1,150,000	1,144,015
Province of Nova Scotia	270,000	268,209
Province of Ontario	1,400,000	1,395,416
Province of Prince Edward Island	740,000	732,328
Province of Quebec	860,000	857,358
Province of Saskatchewan	200,000	198,590
Hospital Districts	6,522,000	6,500,626
Municipal corporations	9,778,305	9,749,823
Corporations	60,228,832	58,313,040
Managed bond fund	10,000,000	10,000,000
	149,469,887	142,370,567
Mortgages:		
Insured:		
National Housing Act (Canada)	67,579,907	66,878,805
Other	7,052,048	6,927,583
Uninsured	14,700,996	14,680,296
	89,332,951	
Total fixed income longer term investments at amortized cost		230,857,251
Less: Provision for capital losses, Note 1(B)(i)		1,763,259
Net fixed income longer term investments, carried forward		$ 229,093,992

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments
as at December 31, 1985

	Book Value
Brought forward	$ 229,093,992
Non-fixed income investments:	
Real estate equity investments:	
Common shares	22,863,966
Participating bonds	38,710,364
Qualifying shares	30,000
Total real estate equity investments at appraised values	61,604,330
Less: Provision for decline in appraised values	1,728,684
Net real estate equity investments	59,875,646
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	14,822,377
Investment in subsidiary, Note 2	6,525,146
Total direct natural resource investments	21,347,523
Venture capital equity investments, at cost	9,249,169
Mortgage investment corporation shares, at cost	1,612,015
Total non-fixed income investments	92,084,353
Short Term notes, at cost	84,600,000
Total Investments, Exhibit A	$ 405,778,345

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income
for the year ended December 31, 1985
(with 1984 figures for comparison)

	1985	1984
Fixed income longer term investments:		
Interest	$ 26,111,969	$ 24,086,957
Amortization of discounts and premiums	451,426	349,255
	26,563,395	24,436,212
Less: Allocation to provision for capital losses	547,577	522,515
	26,015,818	23,913,697
Non-fixed income investments:		
Real estate equity:		
Interest and dividends	4,703,509	3,677,313
Adjustment due to changes in book value of investments	503,977	354,696
	5,207,486	4,032,009
Direct natural resources:		
Income from subsidiary, Note 2	1,080,153	608,106
Dividends	677,004	87,000
Adjustments due to changes in book value of investments	(82,987)	161,494
	1,674,170	856,600
Venture capital equity:		
Dividends	81,232	10,787
Mortgage investment corporations:		
Dividends	153,826	144,024
Canadian Commercial Bank:		
Dividends	44,898	73,164
Adjustment due to changes in book value of investments, Note 1(B)(ii)	(1,660,863)	(6,327,136)
	(1,615,965)	(6,253,972)
Short term notes:		
Interest	8,032,679	6,031,358
Total investment income	39,549,246	28,734,503
Less: Allocated to reserve for Fund's share of employees' pension benefits	43,406	37,329
Net investment income, Exhibit B	$ 39,505,840	$ 28,697,174

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1985

1. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Equity investments:

Where valuation information is available, which is considered by the Investment Committee to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income. As a result of the failure of the Canadian Commercial Bank in 1985, the carried value of these securities has been written down to a nominal value of $1 and the book loss of $1,660,863 has been applied as a reduction of 1985 investment income.

(iii) Real estate equity investments:

The same income measurement policy that applies to the Fund's other equity investments has been adopted for real estate equity investments. The Board has recognized appraised values of the underlying properties on real estate investments for purposes of this policy. Appraisals are done by management and test verified by independent appraisers at September 30 in each year. The Fund's share of the appraisal surplus on that date is reflected in the accounts. Transactions recorded as a result of this policy were as follows:

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1985

		Added to	
	Appraisal Surplus	Investment Income	Provision for Market Declines
As at December 31, 1980	$ 6,749,000	$ 3,374,000	$ 3,375,000
Year ended December 31, 1981	7,688,000	3,844,000	3,844,000
Year ended December 31, 1982	(1,754,000)		(1,754,000)
Year ended December 31, 1983	(2,174,000)		(2,174,000)
Year ended December 31, 1984	(550,000)		(550,000)
Year ended December 31, 1985	(1,012,316)		(1,012,316)
Balances, December 31, 1985	8,946,684		$ 1,728,684
Real estate investments, cost	52,657,646		
Real estate investments, appraised value	$61,604,330		

(iv) Investment in Subsidiary is accounted for on the Equity Method. On this basis, the net income of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba, Inc., is recognized as income to the fund and increases the carrying value of the investment.

(C) Pension Indexing Adjustment Reserve:

An allocation of teachers' contributions is made in accordance with the Act to the reserve. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on total new fixed income investments made since establishment of the reserve.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1984, disclosed a surplus of $37,677,206 compared to an unfunded liability of $19,506,225 at January 1, 1981. This most recent valuation did not make allowance for the financial effect of changes required to be made as a result of amendments to The Pension Benefits Act and the Actuary advised that it is possible that all of the surplus will be required to finance the resulting increase in liabilities.

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1985

(E) Reserve for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Reserve each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Reserve in 1985 and 1984 were as follows:

	1985	1984
Balance, beginning of year	$ 377,448	$ 300,648
Charged to Administrative expenses:		
Adjustment re Actuarial Valuation at December 31, 1983	—	23,952
Required employer contributions	21,198	18,433
Interest allocated from investment income	43,406	37,329
	442,052	380,362
Less: Fund's share of pension payments	2,819	2,914
Balance, end of year	$ 439,233	$ 377,448

(F) Computer:

Computer equipment is capitalized and is amortized on a straight line basis over five years.

2. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc., a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

During 1985, the subsidiary retroactively changed its method of accounting for its investments to the equity basis. Previously income was deemed to have been earned at the lesser of a Government of Canada long term bond rate at the commitment date, plus 5%, or the amount received.

The effect of this change in policy by the subsidiary has been to increase the book value of the investment in the subsidiary and of the basic reserve for Teachers' Share of Benefits by $241,655 (1984 - $196,618).

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1985

The Fund's investments shown in Schedule 1 include $5,245,307 recoverable advances provided by the Fund to the Corporation, the retained earnings of the Corporation, $1,279,739, and an amount of $100 representing the capital stock issued by the Corporation. Net income resulting from the Corporation's operations is recognized as income of the Fund.

3. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 68 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, will be transferred to an Annuity Reserve part of the Benefit Reserves.